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## **AGENDA ITEM 8**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Medicare Part D Options for 2007
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information only
- IV. ANALYSIS:**

### **Background**

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) established a voluntary prescription drug benefit program (Part D) effective January 1, 2006.

In April 2005, the Board decided that for 2006:

- CalPERS would apply for the Retiree Drug Subsidy (RDS) for Medicare-eligible members not enrolled in the Kaiser Senior Advantage plan offered by CalPERS; and
- Kaiser would automatically enroll all CalPERS Kaiser Senior Advantage members in the Kaiser Medicare Advantage Prescription Drug (MA-PD) plan.

The Board also directed staff to re-evaluate Part D options for 2007.

In November 2005, the Board directed the CalPERS Office of Legal Affairs to request an opinion from the Attorney General regarding various Part D issues. The Board deferred making a determination about how to distribute the RDS for 2006, pending a response from the Attorney General's Office. In addition, staff is working with the CalPERS Office of Governmental Affairs to determine the need for legislation to allow the Board to implement its 2007 option.

### **Medicare Part D Options for 2007**

CalPERS has two Part D options for 2007:

- Apply for the RDS for members not enrolled in Kaiser Senior Advantage and continue to provide the Kaiser MA-PD plan for Kaiser Senior Advantage members. (The same options selected in 2006).
- Provide either a health plan or CalPERS based Prescription Drug Plan (PDP) for members not enrolled in Kaiser Senior Advantage and continue to provide the Kaiser MA-PD plan for Kaiser Senior Advantage members.

### **Discussion**

Following is a brief review of the key provisions and implications of CalPERS Part D options for 2007.

#### **Continue with the Same Options Selected for 2006**

Under this option:

- CalPERS would re-apply for the RDS by the deadline of September 30, 2006 for all RDS-eligible CalPERS members who are not enrolled in Kaiser Senior Advantage.
- Kaiser would automatically enroll all CalPERS Kaiser Senior Advantage members in the Kaiser Medicare Advantage Prescription Drug (MA-PD) plan.

Members would retain their existing prescription drug coverage and continue to receive their prescription drugs through their health plan without disruption.

As described in prior agenda items regarding Part D, the amount of subsidy available under the RDS program is based on 28 percent of drug costs between specified dollar thresholds (currently \$250 and \$5,000 per individual) per calendar year using claims experience for RDS-eligible members.

#### **PDP Options**

##### **1. Health Plan Based PDP**

Under this option:

- CalPERS health plans would contract with the federal Centers for Medicare and Medicaid Services (CMS) to be PDPs.

- CalPERS would contract with Blue Shield, Western Health Advantage, and Medco (for PERSCare and PERS Choice) to offer health plan based PDPs.
- Kaiser would continue to offer its existing Medicare Advantage Prescription Drug (MA-PD) plan.

Members would enroll in their health plan's PDP, retain their existing prescription drug coverage, and continue to receive their prescription drugs through their health plan without disruption.

As described in prior agenda items regarding Part D, the federal funding formula for 2006 calculated the reimbursement to PDPs at 74.5 percent of a risk-adjusted, national average premium for retiree prescription drug coverage. Based on the timing last year, staff expects that CMS will publish the national average premium in September 2006.

## 2. CalPERS Based PDP

Under this option,

- CalPERS would apply to and directly contract with CMS to be a PDP and would use a Third Party Administrator (TPA) to administer the PDP.
- CalPERS would carve out prescription drug benefits from its Medicare-Supplement health plans.
- CalPERS would be the responsible intermediary between CMS and the TPA, and the TPA and the health plans.
- CalPERS would be responsible for ensuring that the PDP is compliant with all CMS regulations. For example, the formulary would be subject to CMS approval. CMS would prescribe how CalPERS communicates with its members. CMS would dictate enrollment and disenrollment timing and other requirements.

Members would retain their existing prescription drug coverage but receive their prescription drugs through the TPA administering the CalPERS PDP. This would require members to carry two cards (medical, pharmacy).

The federal funding formula would be the same as the formula for the health plan based PDP.

Also under this option, CalPERS would be subject to the following deadlines:

- CMS must receive the PDP application no later than March 20, 2006. Unless CMS makes an exception to its policy, CalPERS must include an executed contract with the TPA in the PDP application.

- CalPERS must submit for approval its proposed formulary to CMS by April 17, 2006.
- CalPERS must submit PDP premium bids and supporting documentation to CMS by June 5, 2006.

Staff is not pursuing this option for several reasons. First, a CalPERS based PDP does not offer any advantage over a health plan based PDP. Second, this option is not consistent with the prior Board decision to reject carving out pharmacy benefits. Third, this option is much more administratively complex than the health plan based PDP without offering any additional value. Fourth, two of our health plans are not in support of this option. Kaiser informed staff that it would not support this option because pharmacy is an integral part of its delivery system. Blue Shield indicated reservations about this option because of the added complexity in coordination of benefits. While Blue Shield would comply if CalPERS selected this option, Blue Shield does not support this choice and informed staff that none of its other clients have discussed or requested this option. Staff concluded that the health plan based PDP is the superior choice of the two PDPs.

### **Next Steps**

Staff will evaluate the following two Medicare Part D options for 2007: continue with the same options selected for 2006 or provide a health plan based PDP for members not enrolled in Kaiser Medicare Advantage. During rate negotiations, the health plans will provide Medicare pricing for both options.

At a future Health Benefits Committee meeting, staff will provide an analysis of the RDS option compared to the health plan based PDP option, including for each option:

- Estimated federal funding available.
- Administrative feasibility and cost-effectiveness.
- Impact on Medicare rates.

Staff also will recommend the Part D option CalPERS should pursue for 2007.

## **V. STRATEGIC PLAN:**

This item supports Strategic Plan Goal X, which requires CalPERS to develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

**VI. RESULTS/COSTS:**

Staff will include the fiscal impact of Part D options for 2007 as part of the agenda item to be presented at a future Health Benefit Committee meeting.

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